Ascot

Ascot Energy Resources Ltd.

1999 annual report

momentum

contents

energy

annual general meeting

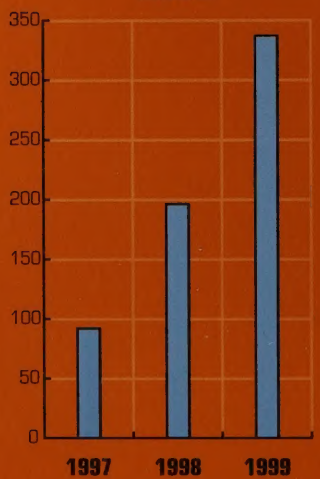
The Annual General Meeting of the Shareholders will be held on Tuesday, June 6, 2000 at 3:00 p.m. in the Viking Room of the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta.

growth

financial and operating profiles

production

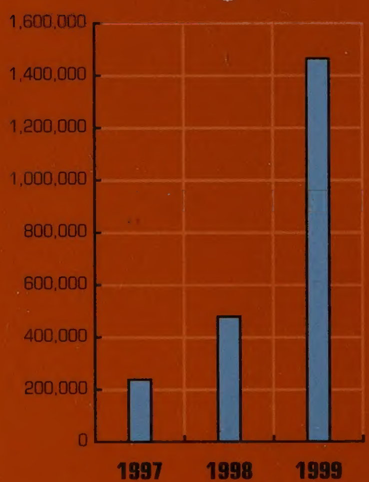
(boe/d)



Production increased by 72% in 1999

cash flow

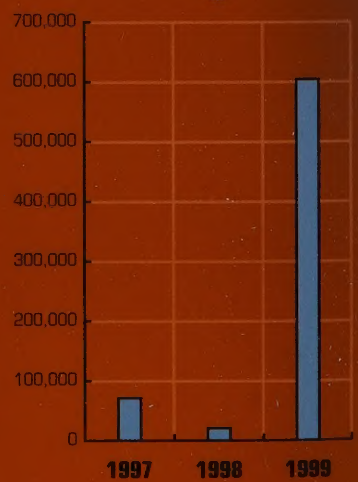
$



Cash flow tripled in 1999

net income

$



Net income increased dramatically in 1999

highlights

	1999	1998	% Change
financial			
($ except where indicated)			
Revenue	**3,142,192**	1,220,482	+157
Cash flow from operations	**1,463,942**	477,589	+207
Per share - Basic	**0.06**	0.02	+200
- Fully Diluted	**0.05**	0.02	+150
Net income	**603,638**	20,583	+2,833
Per share - Basic	**0.02**	0.001	+1,900
- Fully Diluted	**0.02**	0.001	+1,900
Capital expenditures, net	**3,443,138**	3,006,644	+15
Total assets	**8,856,250**	4,461,429	+99
Long - term debt	**—**	1,275,000	-100
Shareholders' equity	**4,435,048**	2,421,017	+83
Common shares - Weighted Average Number	**26,305,749**	21,435,053	+23
operating			
Production			
Oil & NGLs (bbls/d)	**199**	121	+64
Natural gas (mcf/d)	**1,378**	750	+84
Barrels of oil equivalent (boe/d)	**337**	196	+72
Production (boe) per million shares	**4,680**	3,340	+40
Reserves, proven plus probable			
Oil & NGLs (mbbls)	**1,128**	825	+37
Natural gas (Mmcf)	**11,216**	5,510	+104
Barrels of oil equivalent (mboe)	**2,250**	1,376	+64
Present value of reserves discounted at 15% ($000's)	**15,003**	9,095	+65
Reserves, proven plus probable (boe) per million shares	**85,529**	64,177	+33
Undeveloped land (net acres)	**30,940**	10,684	+190
Wells drilled			
Gross	**11**	4	+175
Net	**7.2**	1.7	+324
Success rate	**72%**	75%	-4

gaining momentum for

message to shareholders

1999 was a banner year for Ascot, as record financial and operating results were achieved.

On behalf of the Board of Directors and management of Ascot Energy Resources Ltd., I am pleased to present the 1999 Annual Report to our shareholders. By any measure, 1999 was a banner year for Ascot, as record financial and operating results were achieved. Throughout the year, the Company focused firstly on rationalizing the assets obtained through the acquisition of Pensionfund Energy Resources Limited (PERL). Secondly, with the dramatic and continuous improvement in oil and gas prices, the Company gradually resumed its drilling and workover programs. As a result, 1999 was the Company's most active year to date.

To finance our expanded drilling program and further strengthen our balance sheet, the Company raised $2 million by way of two private placements in December 1999, one for 2 million common shares at 25¢ each and the other for 6 million flow through units at 25¢ each. Each flow through unit consisted of one flow through common share and one warrant to purchase an additional flow through common share, exercisable on or before June 30, 2000 at an exercise price of 30¢ per share.

Concurrent with this financing, the Company appointed Messrs. John Brussa and Ed Chwyl to its Board of Directors. Mr. Brussa is a prominent tax lawyer with the law firm of Burnet Duckworth & Palmer, while Mr. Chwyl, a well-respected oilman, was the President and C.E.O. of Tarragon Oil & Gas Limited, and is currently Chairman of Ventus Energy Ltd. These appointments add further depth and breadth to our Board of Directors, as we embark upon a strategic plan to aggressively grow your company over the next several years.

the year 2000...

operations and financial review

Our rationalization program involved the divestiture of properties that were non-strategic to the Company and the acquisition of further working interests in other properties to which we had assigned reserves and where we had identified significant upside. Some of the key accomplishments of this rationalization program are:

* **Ascot realized net cash proceeds of approximately $1 million.**
* **The Company more than doubled its working interest in Viking-Kinsella to average approximately 85% in 5.75 sections of land.**
* **Ascot increased its working interest more than ten-fold to 100% in a property in the prolific Lone Pine Creek area, where the Company had identified a high-impact dual Crossfield and Nisku prospect.**

Our drilling and workover program, conducted throughout the year, was our most ambitious program to date. The fourth quarter was the most active quarter in the Company's history, in which eight of the year's eleven wells were drilled. Highlights of this activity are:

* **Ascot operated nine of the eleven gross wells (7.2 net) drilled during the year, resulting in six gas wells, two oil wells and three dry holes.**
* **The Company added a significant extension to the Watelet field by drilling two oil wells and one gas well.**
* **Ascot grew net production at Viking-Kinsella from zero to approximately 1.2 Mmcf/d, creating a significant new shallow gas producing property.**

In addition, during the fourth quarter, the Company closed an acquisition of an incremental 5% working interest in the Company's producing core area of Watelet. Although it is a minor acquisition, it exemplifies the type of property acquisitions that the Company is seeking. This strategic acquisition was conducted at a cost of under $20,000 per daily boe, with a recycle ratio of about 2 on a proven basis and about 3 on an established basis. There is also significant infill and extension potential on the undeveloped lands that were part of the acquisition.

This activity conducted throughout the year resulted in record growth in production, reserves, cash flow and profits. More significantly, we at Ascot continuously measure our growth on a per share basis. To that end, we accomplished the following year over year growth:

* **Average daily production per weighted average share increased by 40%;**

* **Proven reserves per weighted average share increased by 43%;**

* **Proven plus half probable reserves per weighted average share grew by 36%;**

* **Cash flow per weighted average share increased by 200%; and**

* **Earnings per weighted average share increased by 1,900%.**

The finding and development costs (F&D) for the year, including revisions, were $6.02 per boe on a proven basis and $4.39 per boe on a proven plus half probable basis. Although there are no official published statistics for F&D costs for emerging and junior companies to compare to, we are convinced that our F&D costs are in the upper decile in the industry.

The financial growth achieved throughout the year exceeded our targets for 1999 on a cash flow and earnings basis, while the exit sales volumes of 451 boe/d, composed of 225 bbls/d of oil and 2.26 Mmcf/d of gas, were less than the anticipated 700 boe/d. Although the drilling success we enjoyed in the fourth quarter had the production capacity behind pipe to meet our exit target rate, we were delayed in getting these production volumes to markets due to several factors beyond our control. Late freeze-up

delayed the tie-ins of a Marten Creek gas well (87.5% W.I.) and a Judy Creek gas well (21% W.I.), both drilled prior to year end, which currently contribute about 750 mcf/d net to Ascot. In addition, the two oil wells and one gas well drilled in Watelet required tie-ins underneath a lake, where we experienced a delay of about six weeks in pipeline construction due to the overwhelming oilfield activity the industry experienced this winter. We are also experiencing lengthy delays in obtaining regulatory approval to expand our Watelet gas plant to handle all of the extra gas we have behind pipe. The Watelet 14-14 gas well (45% W.I.) drilled prior to year end tested at 4 Mmcf/d and will not be tied-in until the plant expansion occurs sometime this summer. In short, we had the success and capacity behind pipe to meet our targets, but unfortunately, we could not get those production volumes to market.

growth strategy

Our strategy for future growth has two distinct components:

- **Growth through acquisitions; and**

- **Growth through the drillbit.**

The Company is actively seeking the acquisition of a producing property and/or a corporate entity which will provide the Company with further core areas for future activity, similar to what we've established in Watelet. The acquisition must be accretive, and have upside potential to be exploited, as well as an undeveloped land component. This is especially true in the high commodity price environment we have today. Because the Company is debt free and has a very strong balance sheet, we plan to finance the acquisitions using debt instruments.

The second component of our growth strategy involves the exploitation of our existing asset base, much the same way as we have done to date. Watelet will continue to be an active area for us, as we have yet to define the limits of the field, let alone infill drill to full field development. In addition, we have established a strong shallow gas producing property in Viking-Kinsella, from which we will endeavour to expand. Also, the Company has amassed a strong land and seismic position, at a 100% working interest, in the Pipestone-Millet area to the east of Watelet, where we plan to drill our first test well later this year, as soon as we conclude our land acquisition strategy. This could provide us with another Watelet-type core area.

Managing growth, particularly rapid growth, by maintaining financial controls has been the subject of much debate in our industry over the last year. At the beginning of this year we put a system of financial and reporting controls in place, such that we are constantly monitoring and reporting actual capital expenditures as they occur, and comparing them to Budget and AFE's. Any variances are immediately detected and incorporated into our Budget. In addition, we are constantly monitoring our debt relative to bank lines and future cash flow. We have imposed a debt to cash flow limit of 2, using a WTI price of $15 (U.S.). This is a prudent fiscal policy because we are convinced that companies which overextend themselves during periods of high commodity prices are the first to collapse when commodity prices come down, as history has demonstrated.

industry outlook

The biggest oilpatch story of 1999 was the dramatic rebound of oil prices and the continued strengthening of gas prices. These factors contributed to record cash flows and earnings for the industry, yet the market continues to ignore the oil and gas sector, particularly the junior oils, whose performance on the market as a group has been lacklustre, thereby severely limiting their access to capital markets.

We are of the view that oil prices will come down from their recent inflationary highs in response to OPEC easing supplies and ramping up production, probably in the 1.5 million barrel per day range. This will probably result in the WTI price being in the $20 to $25 (U.S.) range over the next 12 months or so. Gas, being predominantly a North American commodity, appears to follow more conventional supply, demand and transportation economics, and the fundamentals for that commodity appear very strong in both the short and long term. Ascot has moved from being predominantly an oil producer two years ago, to approximately a 60-40 mix in favour of gas, and we intend to maintain that same commodity mix.

We are also of the view that the markets, although currently preoccupied with Internet and High Tech stocks, cannot continue to ignore the traditional "old economy" type oil and gas sector, which will continue to report record earnings and cash flows given the bullish outlook for commodity prices. When that happens, we are confident that the market will recognize our efforts and reward companies such as ours, which have demonstrated continuous accretive growth, while maintaining a strong balance sheet and having reliable financial control systems to prudently manage that growth.

2000 forecast

The company has set a $6 million capital expenditure budget for the year 2000 to be allocated to the drilling of approximately 12 wells, as well as completions, tie-ins, facilities, land and seismic. By assigning an appropriate risk profile to our prospects, we expect production to average between 700 and 750 boe per day over the year, and our exit production rate to be between 900 and 950 boe per day, weighted slightly in favour of gas. Assuming an oil price of $21 U.S. WTI and a gas price of $3.00 per mcf for the balance of the year, we anticipate a cash flow of between $4 and $4.5 million, or 11 to 12¢ per share, and earnings of approximately $2 million, or 6¢ per share. Our capital expenditure program will be financed from cash flow, the exercise of warrants and available credit facilities.

acknowledgement

Our success at Ascot could not have been possible without the loyalty and dedication of our staff and management, who as significant shareholders in the Company, through direct ownership and stock options, are committed to the success of the Company. Management has significantly strengthened its depth with the recent appointment of Mr. Harry Cupric, CA, to the position of Vice President, Finance and Chief Financial Officer, and the appointment in February 1999 of Mr. Harry Scott, P.Eng., to the position of Production Manager. We would also like to thank our shareholders for their support and our Board of Directors for their guidance and advice. We especially thank Messrs. M.A. (Amin) Abdel-Kader and J. Michael Lavery, who recently retired from the board, for their service and dedication to the Board of Directors of the Company and its shareholders.

On behalf of the Board,

A.M. (Bezo) Khadr
President & CEO
March 30, 2000

fast forward with opp

exploration and operations review

watelet

Watelet continued to be our most significant core area in 1999 and with the strong improvement in oil prices it was the focal point of our drilling activity during the second half of the year. A significant farmin was concluded in the third quarter of 1999 which involved the critical Section 23 bordering the interpreted northern updip extension of the Watelet field and Sections 13 and 15 lying on the east and west flanks of the pool respectively. This farmin increased Ascot's land holding in the Watelet area to 4320 gross acres (2011 net).

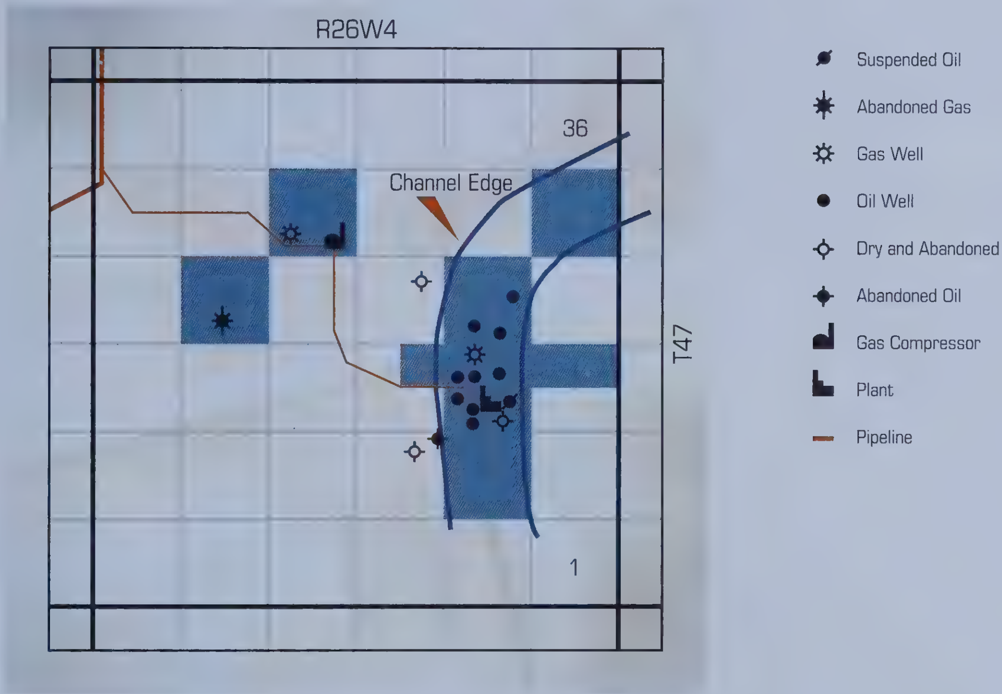
Development and delineation of the Watelet pool continued in earnest in the fourth quarter with the drilling of four wells, at an average W.I. of 52.5%, resulting in one gas well, 2 oil wells and 1 dry and abandoned well. Results of these wells established additional recoverable gross reserves of 123,000 bbls of oil and 1.6 bcf of gas (74,000 bbls of oil and 885 Mmcf of gas net). These wells which required a tie-in underneath a lake, have just been tied-in at the end of the first quarter of 2000 to a satellite battery and header and through a group line to the 7-14 plant. The 14-14 gas well which DST'd 4 Mmcf/d of gas from the Ellerslie formation remains shut-in awaiting plant expansion.

Also, in the fourth quarter Ascot closed an acquisition of an incremental 5% W.I. in the Watelet pool in Section 14 and the surrounding undeveloped acreage from a working interest partner, for a price under $20,000 per producing boe, and a recycle ratio of 2 on a proven basis and 3 on an established basis.

The Company also purchased approximately 40 km of 2-D seismic data as well as a 12 sq. km 3-D over the field to refine the choice of delineation locations over the pool, the northern portion of which is expected to be downspaced to 40 acres.

tunities for growth...

watelet, alberta



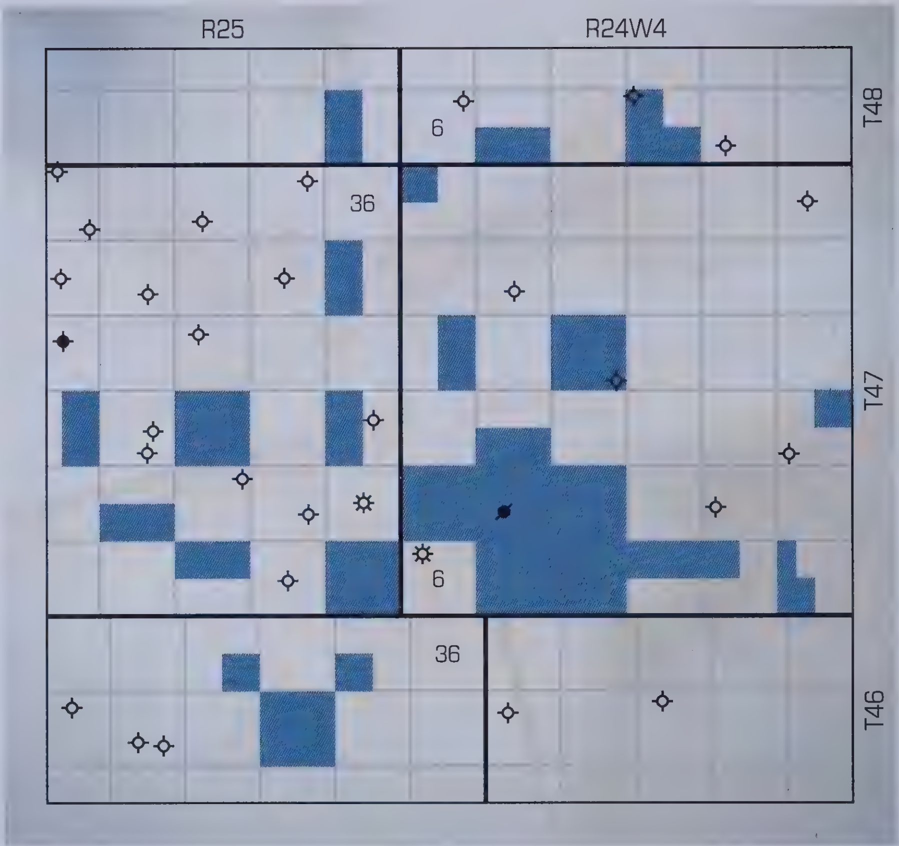
In the first quarter of 2000 Ascot drilled a third earning well on the farmout lands. The well, which encountered a well developed Ellerslie channel, is currently being flow tested and initial indications are extremely encouraging. This well is expected to significantly increase production from Section 23 and accelerate delineation drilling for the balance of 2000. Further delineation of the pool in a southerly direction shall commence immediately after spring break up.

The drilling success the Company has enjoyed to date, necessitates the expansion of the Watelet gas plant to increase its intake capacity from 1.3 Mmcf/d to 5 Mmcf/d. This expansion is expected to commence as soon as regulatory approvals are obtained and we hope to have the expanded plant operational sometime this summer.

A large portion of our 2000 budgeted capital program is allocated to this play and Ascot will continue to maintain a strong exploration focus in this core area and expand its presence through the further acquisition of undeveloped lands.

Ascot's current net production is 120 bbls of oil and 600 mcf of gas per day which we anticipate to increase substantially with the recent tie-ins and the additional delineation locations.

pipestone - millet, alberta



pipestone - millet

Pipestone - Millet is a geological extension of our Watelet core area which lies approximately 10 miles east of Watelet where Ascot is continuing to target geologically structured Ellerslie channels at depths of 1400m to 1425m which could typically contain 1 to 1.2 million recoverable barrels of oil and 2 to 4 bcf of gas per section.

The defined geological leads are keyed off existing wells with definitive hydrocarbon shows and have analogous stratigraphic characteristics to those of the productive horizon at Watelet.

In the first half of 1999 Ascot continued to aggressively lease and buy land over these prospects and to date has accumulated a total of 10480 acres (16.375 Sections) at a 100% W.I. Ascot's average acquisition price for these lands was $40 per acre, well under the industry average in the area.

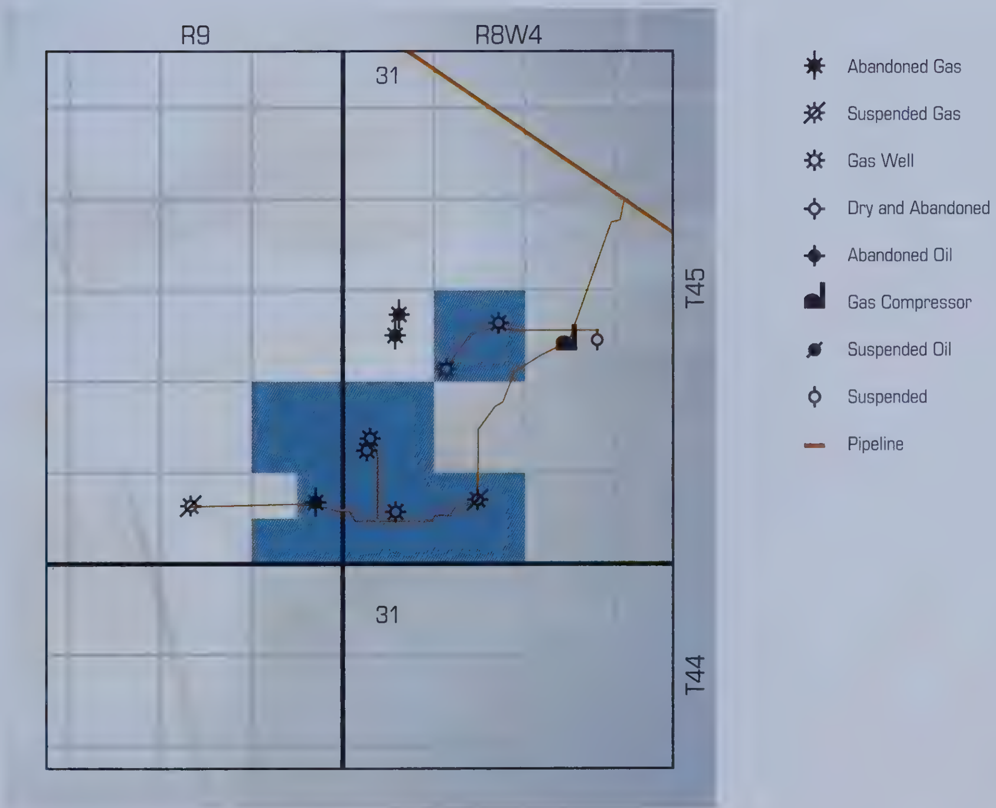
In the second half of 1999 and the first quarter of 2000 Ascot purchased 21km of seismic data and has just completed shooting a 10km program to confirm the structural definition of those leads. The seismic data is currently being interpreted and our strategy is to continue to accumulate all the remaining available acreage over the existing leads with the view to drill 2 Ellerslie test wells in the second half of 2000.

viking - kinsella

This shallow gas property was a part of the Pensionfund acquisition with Viking, Colony and Glauconitic Sandstones gas potential at depths of 600m to 675m. Though the property had four suspended gas wells and was considered as an abandonment liability, Ascot recognized the potential to revive this property through workovers, drilling and compression. During the first quarter of 1999 Ascot proceeded to increase its working interest in these properties and lease additional acreage so that by mid 1999, the company's working interest averaged 85% in 3680 gross acres.

Ascot then worked over 2 suspended Colony gas wells, reactivated a shut-in Viking gas well, re-installed compression and reactivated the gathering system and tie-in to the NUL/Nova line. Subsequently the Company drilled 2 gas wells and 1 dry hole, all at a 100% working interest. This activity resulted in a combined daily net gas production of 1.2 Mmcf/d. A regional geological evaluation of the area is underway in 2000 to attempt to increase production from the area.

viking - kinsella, alberta

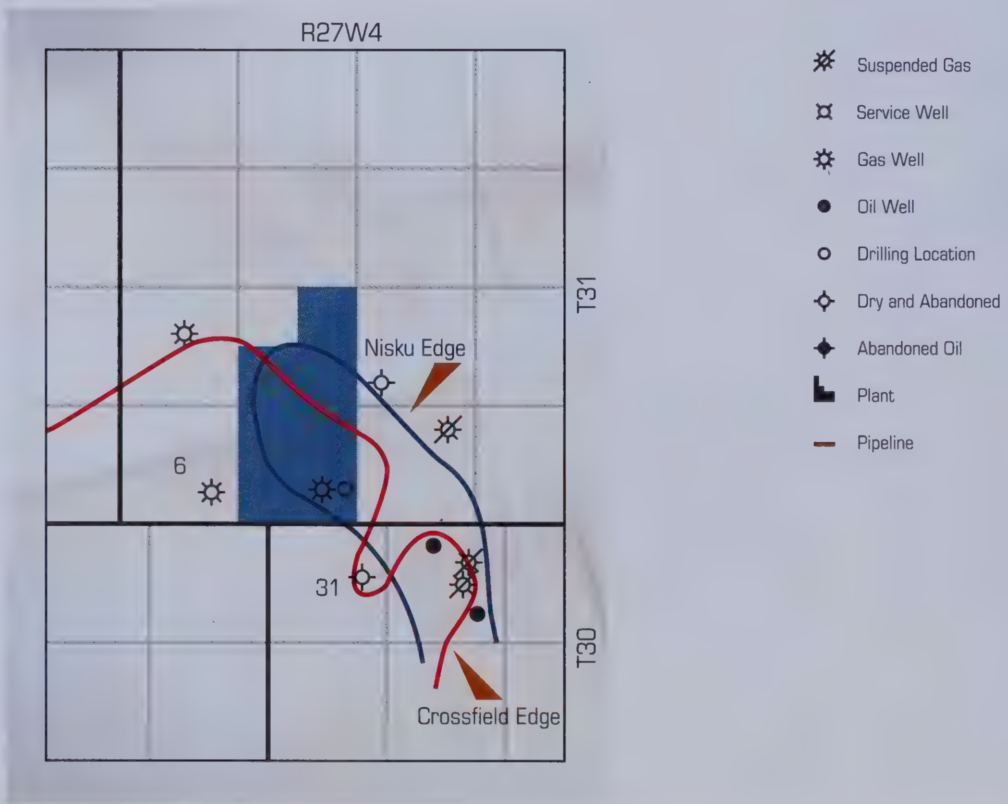


lone pine creek

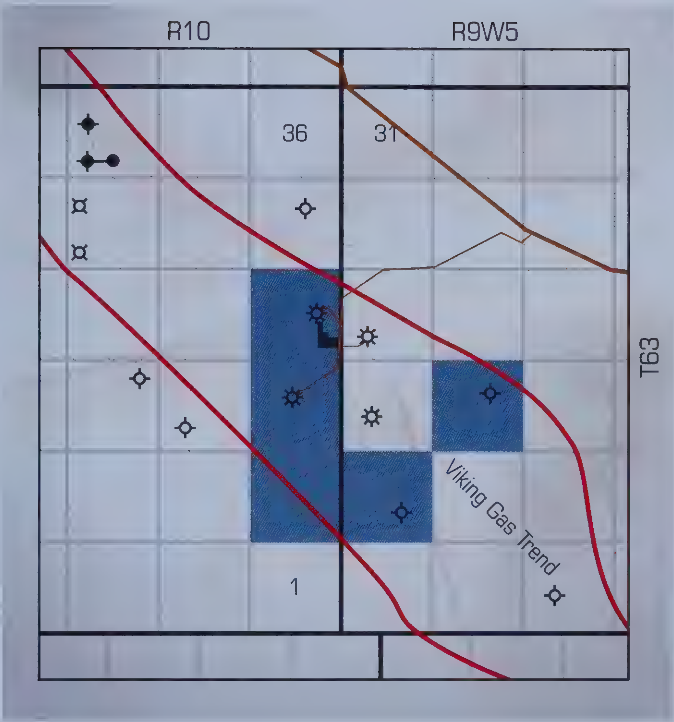
Ascot identified a dual Crossfield gas, Nisku oil prospect on this property which is situated at the northeast end of the Lone Pine Creek field. The well in 7-5 drilled in the early 1970's is a Leduc gas producer and had tested gas from the Crossfield and oil cut mud from the Nisku. The well showed similar Nisku log characteristics to a well a mile southeast at 10-32-30-27W4, which produced to date 500 mbbls of 40° API oil.

Ascot increased its working interest in Section 5 in all rights above the Leduc from 10% to 100% and in the first quarter of 2000 leased under option an additional 480 acres in Section 8. Ascot just completed drilling a twin well at 8-5 to the Ireton formation which is currently cased awaiting completion as soon as road bans are lifted. Indications to date from logs and cuttings are encouraging for both Nisku oil and Crossfield gas.

Production from the well would be pipelined two miles southeast to the group header at 2-29 and on to the Lone Pine Creek compressor 4 miles west, for water disposal. Ultimately, oil and gas are pumped into the high pressure transfer line to the Crossfield plant for processing. Pending encouraging production results from the Nisku an additional followup location may be contemplated.



judy creek, alberta

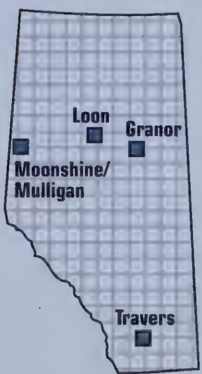


judy creek

Ascot owns 3200 gross acres (688 net) on an extensive Viking gas trend southeast of the Judy Creek Swan Hills field. In the fourth quarter of 1999 Ascot participated (21.66% W.I.) in the drilling of a successful Viking gas well in Section 24-63-10W5. This well is currently tied in and flowing at 1.2 Mmcf/d. Production and pressure data from this well and two adjacent wells will be closely monitored over the next few months to determine the potential of future drilling locations on Ascot working interest lands.

other areas of activity

In addition to the activity in the previously discussed areas, Ascot participated in the drilling of the following four successful non-operated wells during the past winter drilling season:



* In the Travers-Carmangay area, Ascot has a 15% W.I. in a Sunburst sand gas well that tested 2.4 Mmcf/d on perforations. This well is expected to be tied-in and onstream immediately after spring break-up.

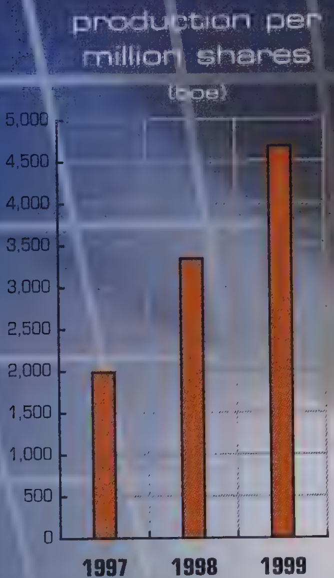
* In the Loon area Ascot participated, with a 20.6% W.I., in an infill Granite Wash oil well which is tied into our pipeline and is currently flowing 90 bbls/d of 40° API crude.

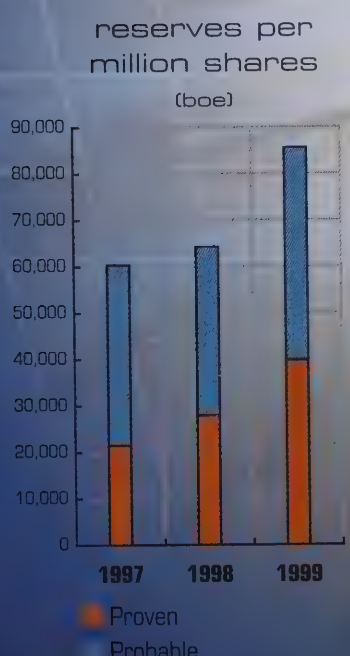
* In the Granor area of Eastern Alberta, Ascot has a 5% W.I. in a large block of land where two shallow gas Nisku wells have been drilled, completed and recently tied-in.

Further to this activity, the company farmed out a Kiskatinaw test well on it's 100% lands in the Mulligan Creek area on the Peace River Arch. This well, which was drilled at no cost to the Company, was dry in the deeper objectives and was recently completed and is currently producing 3 Mmcf/d of gas from the Gething formation. Ascot retains a gross overriding royalty of 6.25% before payout that is convertible to a 20% W.I. after payout.

energy enough to take on

management's discussion and analysis





Ascot made significant strides in 1999. With the asset rationalization of properties acquired through the purchase of Pensionfund Energy Resources Limited, the Company increased its working interests in strategic operated properties and divested non-strategic assets. Both the operational and financial performance was exceptional in comparison to the previous year. The Company increased production, strengthened the balance sheet, completed share issues through private placements and further strengthened its Board of Directors.

In 1999, the Company continued to enhance shareholder value. For the year the Company generated a 17.6 percent return on equity. Production per basic weighted average share increased 40 percent (36 percent-diluted) from 1998. Proven reserves per basic weighted average share increased 43 percent (39 percent-diluted) in 1999 with proven and probable reserves per share increasing 33 percent (30 percent-diluted) from 1998.

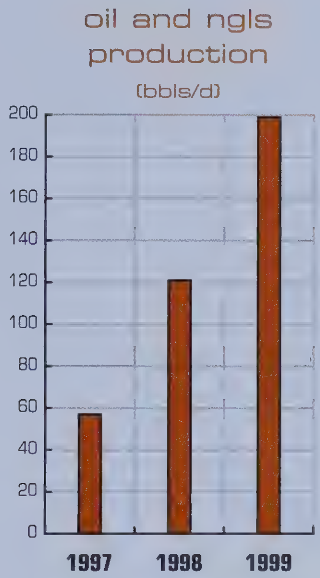
revenue

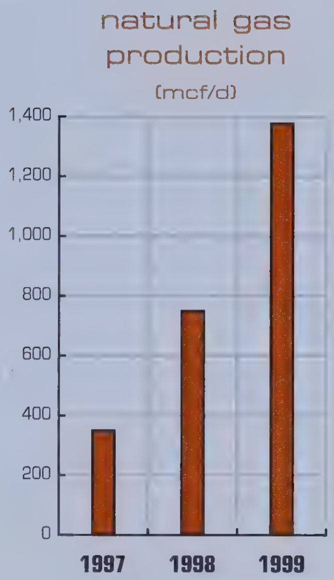
Petroleum and natural gas sales in 1999 were $3,142,192, compared to the $1,220,482 earned in 1998. The increase in sales was a result of a 72 percent increase in barrels of oil equivalent production combined with higher commodity prices received in the year. Production of oil and NGLs averaged 199 barrels per day, an increase of 64 percent from 121 barrels per day in 1998. Natural gas production increased 84 percent to 1,378 thousand cubic feet per day from 750 thousand cubic feet per day in 1998.

Average oil prices increased 41 percent to $23.15 per barrel from $16.37 per barrel in 1998. The increase was due primarily to the strong improvement in the average price for West Texas Intermediate crude oil in 1999. Natural gas prices averaged $2.90 per thousand cubic feet in 1999 compared to $2.16 per thousand cubic feet in the prior year.

royalties

Royalties, net of the Alberta Royalty Tax Credit (ARTC), increased in 1999 along with revenue to $368,613 from $108,593 in 1998. The higher net royalties were a result of increased production combined with a lower ARTC rate due to the higher average commodity prices in the year.





production expenses

Production expenses increased to $850,855 in 1999 from $478,091 in 1998. Production expenses on a barrel of oil equivalent basis were $6.91, up slightly from $6.67 per boe in 1998 due to one time workover costs incurred in the fourth quarter, the benefits of which will not be realized until the ensuing quarters.

general and administrative expenses

General and administrative expenses were $474,413, or $3.85 per barrel of oil equivalent, up from $206,031 or $2.87 per barrel of oil equivalent in 1998. In 1999, $318,000 (1998 - $176,000) of general and administrative expenses were capitalized as well as $75,000 of interest costs relating to exploration and development activities. General and administrative expenses were higher in 1999 due primarily to an increase in staffing early in the year required to manage the Company's growth. General and administrative expenses are expected to be below $2.50 per barrel of oil equivalent in 2000.

analysis of netbacks

The following table summarizes the netbacks per boe:

($ per boe)	**1999**	1998	% Change
Sales price	**25.53**	18.08	+41
Net royalties	**3.00**	1.51	+99
Production expenses	**6.91**	6.67	+4
Netback	**15.62**	9.90	+58

depletion, depreciation and site restoration

Depletion, depreciation and site restoration increased to $860,304 in 1999 from $457,006 in 1998 due to the higher production volumes realized in the year. The rate per barrel of oil equivalent was up slightly to $6.99 versus $6.38 per boe in 1998.

cash flow from operations and net income

Cash flow from operations in 1999 increased to $1,463,942 from $477,589 in 1998 due to higher production volumes and average sales prices in the year. Basic cash flow per share was $0.06 ($0.05 fully diluted) in 1999 up from $0.02 ($0.02 fully diluted) in 1998.

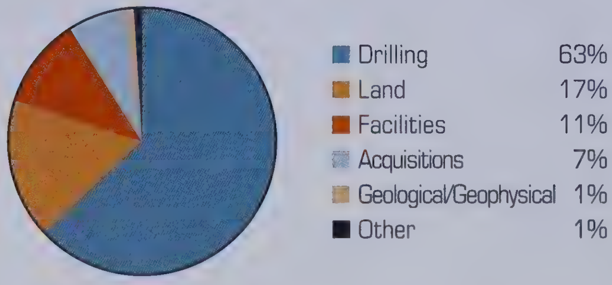
This much improved cash flow resulted in a net income in 1999 of $603,638, a significant increase from $20,583 for 1998.

($)	**1999**	1998	% Change
Cash flow from operations	**1,463,942**	477,589	+207
per share - basic	**0.06**	0.02	+200
Net Income	**603,638**	20,583	+2,833
per share - basic	**0.02**	0.001	+1,900

capital expenditures

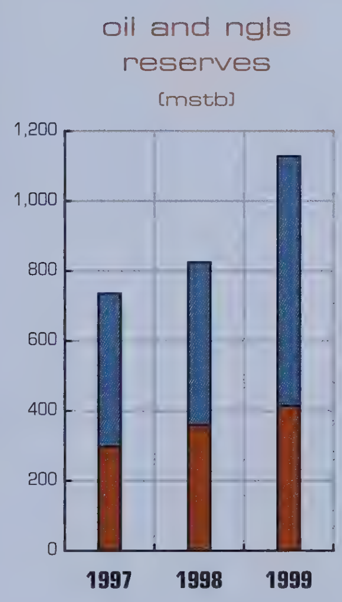
Ascot drilled 11 wells in 1999 with a success rate of 72 percent. During the fourth quarter of 1999, eight wells were drilled resulting in the most aggressive drilling program in any quarter to date. Gross capital expenditures of $4,493,138 were made in 1999, an increase of 49 percent over the $3,011,494 incurred in 1998. Divestitures of non-strategic properties for proceeds of $1,050,000 were also realized in the year.

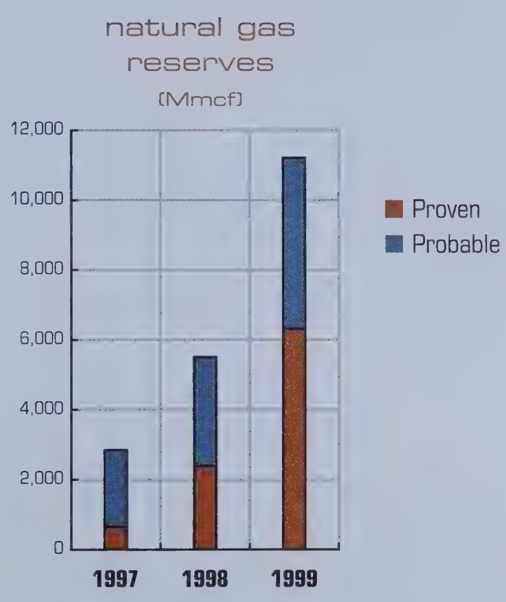
Capital Expenditures ($)	**1999**
Land	774,182
Geological & geophysical	54,740
Exploration & development	2,806,720
Equipment & facilities	485,008
Acquisitions	319,081
Other	53,407
Total	4,493,138
Dispositions	(1,050,000)
Net Capital Expenditures	3,443,138



reserves

The net capital expenditures of $3,443,138 resulted in net additions of 1.0 million barrels of oil equivalent reserves on a proven plus probable basis. In the year, proven reserves increased 75 percent to 1.05 million barrels of oil equivalent from 0.6 million in 1998.





reserves reconciliation

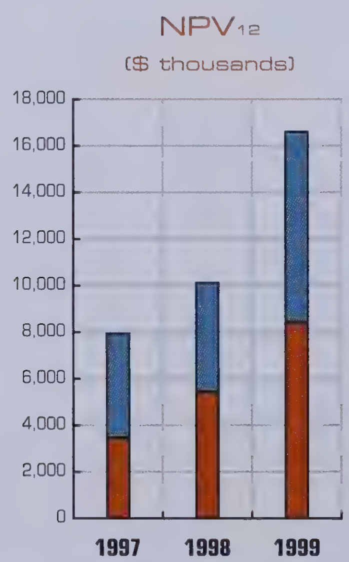
The following table reconciles the change in reserves that occurred during 1999.

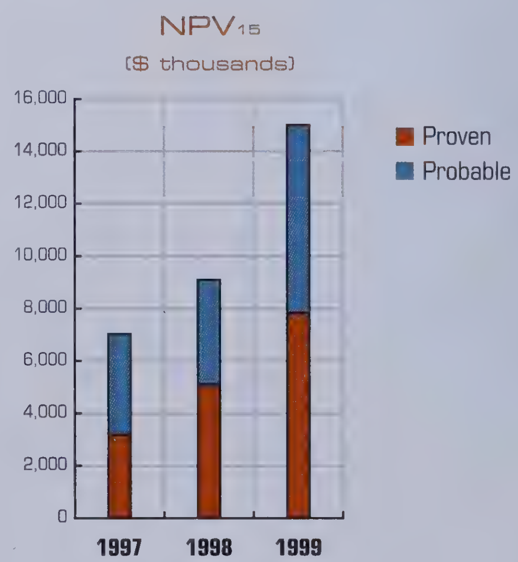
	Oil & NGLs (mbbls)		**Natural Gas (Mmcf)**	
	Proven	**Probable**	**Proven**	**Probable**
December 31, 1998	359.9	464.6	2,387.8	3,122.6
Discoveries	64.8	51.9	3,023.2	51.5
Acquisitions	45.8	278.6	1,415.4	1,940.4
Revisions	16.4	(80.9)	7.2	(229.0)
Production	(72.8)	—	(503.1)	—
December 31, 1999	**414.1**	**714.2**	**6,330.5**	**4,885.5**

net present value of reserves

The following table summarizes the future discounted value of reserves as of December 31, 1999 based on escalating prices and cost assumptions as evaluated by Martin & Brusset Associates.

	Discount Rate		
($ thousands)	**10%**	**12%**	**15%**
Proven Producing	7,021	6,687	6,252
Proven Non-Producing	1,887	1,755	1,579
Total Proven	8,908	8,442	7,831
Probable	8,965	8,160	7,172
Total Proven plus Probable	**17,873**	**16,602**	**15,003**





reserve replacement

During 1999, more natural gas reserves were added than oil reserves. The following table provides the reserve replacement ratios for 1999.

	Oil & NGLs	Natural Gas	Total
Proven	1.7	8.8	4.6
Proven plus 1/2 Probable	3.5	10.6	6.4
Proven plus Probable	5.2	12.3	8.1

reserve life index

The following table highlights the long life reserve base.

(Years)	Oil & NGLs	Natural Gas	Total
Proven	5.7	12.6	8.5
Proven plus 1/2 Probable	10.6	17.4	13.4
Proven plus Probable	15.5	22.3	18.3

finding and development costs

The finding and development costs per boe for 1999 and the two year average are summarized below.

($ per boe)	1999	2 Year Average
Proven	6.02	7.50
Proven plus 1/2 Probable	4.39	5.73
Proven plus Probable	3.45	4.63

liquidity and capital resources

In 1999, Ascot's capital expenditures were funded through a combination of cash flow from operations, working capital and equity financing. In 1999, six million flow through units were issued for proceeds of $1.5 million. An additional $1.8 million of proceeds is expected to be received in June, 2000 on the exercise of warrants. Proceeds of $500,000 were also received in 1999 from a private placement issue of two million shares.

In 2000, the capital expenditure program is expected to be financed from cash flow from operations, proceeds from the exercise of the flow-through share warrants and bank financing. Based on the 2000 cash flow projection, the Company's long-term debt is expected to be less than 0.25 times projected 2000 cash flow.

business risks

The exploration, production, acquisition and marketability of oil and gas reserves involve numerous business risks beyond the Company's control. These include commodity prices, exchange rates, interest rates and government regulations. The Company continuously monitors and reacts to changes in these factors and adheres to all regulations governing its operations. Additionally, Ascot attempts to minimize the technical risks associated with our operations by employing a team of highly skilled and experienced professionals. Insurance is also maintained at levels consistent with prudent industry practices to minimize risks.

management's report

The consolidated financial statements of Ascot Energy Resources Ltd. were prepared by management in accordance with generally accepted accounting principles in Canada. The financial and operational information contained in this annual report is consistent with that reported in the consolidated financial statements.

Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded and to produce reliable accounting records for financial reporting purposes. Timely disclosure requires the use of estimates when transactions affecting the current accounting period cannot be finalized or known for certain until future periods. Such estimates are based on judgments made by management using relevant information known at the time.

Independent auditors appointed by the shareholders of the Company have examined the consolidated financial statements. The audit committee, consisting of three non-management directors, has reviewed these statements with management and the auditors and has reported to the board of directors. The board of directors has approved the consolidated financial statements.

A.M. (Bezo) Khadr
President and
Chief Executive Officer

Harry D. Cupric
Vice President, Finance and
Chief Financial Officer

auditors' report

To the Shareholders of
Ascot Energy Resources Ltd.:

We have audited the consolidated balance sheets of Ascot Energy Resources Ltd. as at December 31, 1999 and 1998 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Deloitte & Touche LLP

Chartered Accountants

Calgary, Alberta
March 17, 2000

consolidated balance sheets

As At December 31

	1999 $	1998 $
assets		
Current		
Cash	**791,335**	285,453
Accounts receivable	**2,129,868**	540,580
Prepaid expenses and deposits	**112,967**	40,850
	3,034,170	866,883
Property, plant and equipment (Note 4)	**5,822,080**	3,594,546
	8,856,250	4,461,429
liabilities		
Current		
Accounts payable and accrued liabilities	**4,210,453**	633,463
Long-term debt (Note 5)	**—**	1,275,000
Provision for site restoration	**210,749**	131,949
	4,421,202	2,040,412
shareholders' equity		
Share capital (Note 6)	**6,324,012**	4,313,619
Share subscriptions (Note 3)	**—**	600,000
Deficit	**(1,888,964)**	(2,492,602)
	4,435,048	2,421,017
	8,856,250	4,461,429

Approved by the Board

D R Guik

Director

Director

consolidated statements of operations and deficit

Years Ended December 31

	1999	1998
	$	$
revenue		
Petroleum and natural gas sales	**3,142,192**	1,220,482
Royalties, net of ARTC	**(368,613)**	(108,593)
Interest and other	**15,631**	49,822
	2,789,210	1,161,711
expenses		
Production	**850,855**	478,091
General and administrative	**474,413**	206,031
Depletion, depreciation and site restoration	**860,304**	457,006
	2,185,572	1,141,128
Net income for the year	**603,638**	20,583
Deficit, beginning of year	**(2,492,602)**	(2,513,185)
Deficit, end of year	**(1,888,964)**	(2,492,602)
Net income per share (Note 6)		
Basic	**0.02**	0.001
Fully Diluted	**0.02**	0.001

consolidated statements of cash flows

Years Ended December 31

	1999 $	1998 $ (Note 3)
Cash flows related to the following activities:		
operating		
Net income for the year	**603,638**	20,583
Adjustments for:		
Depletion, depreciation and site restoration	**860,304**	457,006
Cash flow from operations	**1,463,942**	477,589
Changes in non-cash operating working capital items (Note 8)	**1,915,585**	(179,465)
	3,379,527	298,124
financing		
Increase (decrease) in long-term debt	**(1,275,000)**	1,275,000
Issue of common shares for cash, net of issue costs	**1,844,493**	183,500
	569,493	1,458,500
investing on		
Expenditures on property, plant and equipment	**(4,493,138)**	(2,314,889)
Acquisition of subsidiary (Note 3)	**—**	(91,755)
Proceeds on sale of property, plant and equipment	**1,050,000**	—
	(3,443,138)	(2,406,644)
Net increase (decrease) in cash	**505,882**	(650,020)
Cash, beginning of year	**285,453**	935,473
Cash, end of year	**791,335**	285,453
Cash flow from operations per share (Note 6)		
Basic	**0.06**	0.02
Fully Diluted	**0.05**	0.02

notes to the consolidated financial statements

Years Ended December 31, 1999 and 1998

1. basis of presentation

The consolidated financial statements include the accounts of Ascot Energy Resources Ltd. (the "Company") and its wholly-owned subsidiary, Pensionfund Energy Resources Limited ("PERL") which was acquired effective November 1, 1998 (Note 3).

2. significant accounting policies

The Company's financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following policies:

Petroleum and natural gas operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing oil and gas properties and related reserves are capitalized into a single Canadian cost centre. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells, geological and geophysical expenditures, well equipment, and certain other overhead expenditures related to exploration.

Capitalized costs, including tangible well equipment, are depleted using the unit-of-production method based on estimated proven reserves of oil and gas before royalties as determined by management and reviewed by an independent reserve engineer.

Gains or losses on the sale or disposition of oil and gas properties are not ordinarily recognized except under circumstances which result in a major revision of depletion rates and which would result in a material gain or loss.

The Company applies a "ceiling test" to capitalized costs to ensure that such costs do not exceed future net revenues from estimated production of proven reserves, using prices and costs in effect at the Company's year end, less administrative, financing, site restoration and abandonment, and income tax expenses, plus the costs of unproven properties. Any reduction in value as a result of the ceiling test is charged to operations as an element of depletion and depreciation expense.

Depletion and depreciation

Petroleum and natural gas properties and related equipment, excluding undeveloped properties, are depleted and depreciated using the unit-of-production method based on estimated proven reserves before deduction of royalties and after conversion to units of common measure based on a ratio of six thousand cubic feet of natural gas to one barrel of oil. Leasehold improvements are recorded at cost and depreciated over the term of the lease.

Office equipment and furniture are recorded at cost and depreciated on the declining-balance basis at rates of 20% to 30% per year.

Joint ventures

Substantially all of the Company's exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

Flow-through shares

The Company has issued flow-through shares and warrants for the purchase of flow-through shares. Under these financing agreements, shares are issued at a fixed price and the resultant proceeds are used to fund exploration and development work within a defined time period. The exploration and development expenditures funded by flow-through arrangements are renounced to investors in accordance with the appropriate tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated renounced tax deductions when the related costs are incurred.

Future site restoration and abandonment costs

The Company has made a provision for future site restoration and abandonment costs, based on the unit-of-production method.

Financial instruments

The Company has estimated that the fair value of its financial instruments which include cash, accounts receivable, accounts payable and accrued liabilities, approximate the carrying amounts of such financial instruments due to their short-term maturities.

Deferred income taxes

The Company follows the deferral method of tax allocation accounting under which the provision for corporate income taxes is based on the earnings reported in the accounts and takes into account the tax effects of timing differences between financial statement income and taxable income.

Stock based compensation plan

The Company has a stock based compensation plan as described in Note 6. Options are issued at current market value, consequently no compensation expense is recorded. Consideration paid by employees, consultants or directors on the exercise of stock options is credited to share capital.

3. acquisition

Effective November 1, 1998, the Company acquired all of the issued and outstanding shares of PERL, a private company involved in the exploration, development and production of petroleum and natural gas in Western Canada. The acquisition has been accounted for by the purchase method of accounting as follows:

	$
Consideration given:	
Issue of 4,000,000 common shares at $0.15 per share (disclosed as share subscriptions at December 31, 1998)	600,000
Acquisition costs	91,755
	691,755

Allocation of purchase price:	
Property and equipment	759,755
Provision for future site restoration	(68,000)
	691,755

The consolidated financial statements include the net assets acquired and results of operations of PERL from the effective date of November 1, 1998. The non-cash portion of the acquisition has been excluded from the Statement of Cash Flows for 1998.

4. property, plant and equipment

	Cost $	1999 Accumulated Depletion and Depreciation $	Net Book Value $
Petroleum and natural gas properties	9,495,870	3,778,378	5,717,492
Office equipment and furniture	131,465	63,298	68,167
Leasehold improvements	54,349	17,928	36,421
	9,681,684	3,859,604	5,822,080

	Cost $	1998 Accumulated Depletion and Depreciation $	Net Book Value $
Petroleum and natural gas properties	6,540,239	3,020,677	3,519,562
Office equipment and furniture	100,209	45,831	54,378
Leasehold improvements	32,198	11,592	20,606
	6,672,646	3,078,100	3,594,546

The Company has capitalized, as part of petroleum and natural gas properties, general and administrative expenses relating to property acquisition, exploration and development activities of $318,000 for the year ended December 31, 1999 (1998 - $176,000). Petroleum and natural gas properties at December 31, 1999 also include $75,000 of interest expense capitalized relating to the Company's exploration and development activities (1998 - $44,000).

Undeveloped land costs of $354,000 (1998 - $277,000) have been excluded from the amount subject to depletion and depreciation.

Petroleum and natural gas properties are presented net of $2,383,000 (1998 - $1,932,000) of benefits relating to income tax deductions which have been renounced under flow-through share arrangements (Note 6).

5. long term debt

At December 31, 1999, the Company had available a revolving demand loan credit facility to a maximum of $1,900,000 and a non-revolving acquisition demand loan credit facility to a maximum of $1,000,000. The loans bear interest at the bank prime rate plus 1% and are secured by a debenture covering all assets of the Company.

6. share capital

Authorized

Unlimited number of Class A common voting shares
Unlimited number of preferred shares, issuable in series

The directors of the Company are authorized to determine the designation, rights, privileges, restrictions and conditions attached to the preferred shares.

Issued	Number of Shares	**Amount $**
Balance December 31, 1997	20,768,386	**4,723,565**
Flow-through shares for cash	967,500	**193,500**
Tax benefit renounced to shareholders	—	**(593,446)**
Share issue costs	—	**(10,000)**
Balance December 31, 1998	21,735,886	**4,313,619**
Issue of shares for cash	2,000,000	**500,000**
Issue of shares on acquisition of PERL (Note 3)	4,000,000	**600,000**
Flow-through shares for cash	6,000,000	**1,500,000**
Tax benefit renounced to shareholders	—	**(434,100)**
Share issue costs	—	**(155,507)**
Balance December 31, 1999	33,735,886	**6,324,012**

The basic income per share and cash flow from operations per share figures have been calculated using 26,305,749. (1998 - 21,435,053) weighted average number of shares and fully diluted using 27,836,160 (1998 - 22,068,053) weighted average number of shares.

In December, 1999, 6,000,000 flow-through units were issued, consisting of one flow-through common share and one purchase warrant, at a price of $0.25 for gross proceeds of $1,500,000. Each purchase warrant entitles the holder to purchase one flow-through common share at a price of $0.30 per share on or before June 30, 2000. No value was assigned to the warrants for accounting purposes.

On December 31, 1999, $789,000 has been expended relating to the flow-through common shares issued in 1999. The Company is committed to incur qualifying expenditures on the remaining $711,000 before December 31, 2000. On exercise of the purchase warrants the Company will be committed to incur $1,800,000 of qualifying expenditures before December 31, 2001.

Stock options

The Company has a stock option plan, which is administered by the Board of Directors, in which up to 10% of the issued Class A shares are reserved for issuance pursuant to this plan. The vesting period of the options varies from immediately to three years, with expiry five years from the date of grant.

The following options to purchase shares have been granted:

	1999		1998	
	Number of options #	**Weighted avg exercise price $**	Number of options #	Weighted avg exercise price $
Options outstanding, beginning of year	**810,000**	**0.21**	480,000	0.20
Granted	**1,410,000**	**0.23**	330,000	0.21
Cancelled	**(200,000)**	**0.15**	—	—
Options outstanding, end of year	**2,020,000**	**0.22**	810,000	0.21
Options exercisable, end of year	**1,245,000**	**0.22**	526,666	0.21

The following summarizes the options outstanding at December 31, 1999:

Number of options	Weighted Avg Exercise Price $	Weighted Avg Contractual Life
2,020,000	0.22	3.8

7. income taxes

Deferred income taxes related to net income for the year have been offset by previously unrecognized deferred income tax recoveries from prior years.

Petroleum and natural gas properties with a cost of approximately $2,960,000 at December 31, 1999 (1998 - $2,398,000) have no cost base for income tax purposes.

8. changes in non-cash working capital items

	1999	1998
	$	$
Accounts receivable	**(1,589,288)**	442,841
Prepaid expenses and deposits	**(72,117)**	19,352
Accounts payable and accrued liabilities	**3,576,990**	(641,658)
Changes in non-cash working capital	**1,915,585**	(179,465)
Cash interest paid in the year	**75,271**	43,785

9. commitments

The Company has an obligation to make future minimum lease payments of $112,500 per year for the next two and one half years relating to a lease of premises.

corporate information

directors

John A. Brussa[1]
Partner
Burnet Duckworth & Palmer

Ed Chwyl[1,2]
Chairman and C.E.O.
Ventus Energy Ltd.

Dennis R. Gieck[1,2]
Executive Vice President and C.O.O.
Enerplus Energy Services Ltd.

A.M. (Bezo) Khadr[2]
President and C.E.O.
Ascot Energy Resources Ltd.

Marcel J. Tremblay
Chairman, President and C.E.O.
Enerplus Energy Services Ltd.

Joseph W. Worobec
Retired Geologist

officers and key personnel

A.M. (Bezo) Khadr
President and C.E.O.

Harry D. Cupric
Vice President, Finance and C.F.O.

Bill Khouri
Vice President, Exploration

Harry E. Scott
Production Manager

Joe Worobec Jr.
Land Manager

auditors

Deloitte & Touche LLP
Calgary, Alberta

bankers

National Bank of Canada
Calgary, Alberta

reserves engineers

Martin & Brusset Associates
Calgary, Alberta

solicitors

Donahue Powers Wells
Calgary, Alberta

transfer agent and registrar

CIBC Mellon
Calgary, Alberta

wholly owned subsidiary

Pensionfund Energy Resources Limited

exchange listing

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Trading Symbol "AER"

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Website: www.ascotenergy.com

[1] - Member of Audit Committee
[2] - Member of Compensation Committee

abbreviations

momentum

energy

growth

A.F.E.	authorization for expenditure
API	American Petroleum Institute
ARTC	Alberta Royalty Tax Credits
bbls/d	barrels per day
bbl(s)	barrel(s)
bcf	billion cubic feet
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
bopd	barrels of oil per day
F&D	finding & development
G&A	general & administrative
Km	kilometres
mbbls	thousand barrels
mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
m	metres
Mmcf	million cubic feet
Mmcf/d	million cubic feet per day
mstb	thousand stock tank barrels
NGL(s)	natural gas liquid(s)
NPV	net present value
W.I.	working interest
WTI	West Texas Intermediate

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